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October 11, 2002

**VIA ELECTRONIC FILING**

Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> Street SW  
Washington DC 20554

**Re:** CC Dockets No. 96-45, 98-171, 90-571, 92-237, 99-200, 96-116, 98-170, 02-33, 95-20, 98-10 and NSD File No. L-00-72.

On October 11, 2002, Whit Jordan (of BellSouth), Don Cain, David Hostetter, Jeff Brueggeman, and I (all on behalf of SBC Communications) met with Bill Maher, Chief and Carol Matthey, Deputy Division Chief of the Wireline Competition Bureau and Eric Einhorn, Acting Chief of the Telecommunications Access Policy Division regarding the Commission's open proceeding in the above captioned dockets.

During this meeting, SBC and BellSouth urged the Commission to make competitive neutrality a paramount consideration as review continues of the various universal service reform proposals on the record in this proceeding. SBC and BellSouth believe that any reform proposal adopted by the Commission must treat competing services in a similar fashion, independent of technological platform or whether the Commission regulates the carrier as a "dominant" or "non-dominant" carrier. In particular, SBC and BellSouth encouraged the Commission to deal with the current asymmetrical application of universal service regulations to competing providers of broadband services.

In accordance with Section 1.1206 of the Commission's rules, this letter and the attached are being filed in each of the above referenced dockets via the Commission's ECFS system. Should you have any questions regarding the attached, please do not hesitate to contact me by whatever means are most convenient for you.

Sincerely,

A handwritten signature in black ink, appearing to read "J. M. Tan", with a stylized flourish at the end.

Attachments

Cc: Bill Maher  
Carol Matthey  
Eric Einhorn

# Primary Concerns with Current Mechanism

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- Current contribution base is not broad enough to capture technology changes or market realities. Interstate telecommunications activity is not decreasing, but *covered* revenues may be.
- Current contribution mechanism distorts competition:
  - » Safe harbor unfairly reduces wireless carrier contributions.
  - » DSL has 7 percent price disadvantage compared to cable modem and other competing broadband services.
  - » Internet telephony and information services (e.g., e-mail and instant messaging) are voice substitutes, but are not included in the contribution base.
  - » CLECs and other non-dominant providers have *total* pricing freedom regarding contribution and recovery.
- Customer demands for service bundling will continue to grow and are not easily accommodated by the current mechanism or the use of safe harbors.

# Statutory Considerations Are Paramount

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- Section 254(d) creates a strong presumption in favor of including all interstate telecommunications services and providers in the contribution base. Services and providers cannot be excluded unless the Commission expressly determines that the *de minimis* exemption is met or that exclusion will result in *equitable and nondiscriminatory* contributions for those that contribute.
  - » IXC's, wireless carriers, broadband providers and payphone providers all seek to reduce or eliminate their contributions.
  - » Commission has discretionary authority to include broadband services that are “provided via telecommunications.”
- “Equitable and nondiscriminatory” requirement of Section 254(d) mandates competitive neutrality across competing technology platforms.
- Commission must ensure that universal service support is “sufficient and predictable” in a rapidly changing market.
- Desire for administrative simplicity cannot override these statutory and policy considerations.

# Key Principles for Reform

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- Commission must maintain a broad contribution base to ensure the stability of the fund and avoid excessive burden on local voice customers.
  - » Contribution mechanism must accommodate technology and market changes.
- SBC and BellSouth support a connection-based approach as a way of applying a consistent contribution obligation across competing platforms.
  - » Uniform contribution methodology ensures competitive neutrality.
  - » USF recovery charges should not impact consumer's choice of service provider.
- Contribution obligation and payments should be based on current reporting, rather than historical information.
- USF recovery charges should be uniform. Lack of uniformity is confusing for consumers and detrimental to public perception of the program.

## SBC BellSouth *Joint Proposal*

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- Assesses a flat contribution on every retail service an end user purchases that provides interstate telecommunications capability. Includes packet services and services to access the Internet, which is a type of public network.
- Assesses separate contribution charges for the access component and the interstate transport component of each distinct service.
- Bases contributions on the number and capacity of retail services provided to end user customers.
  - » Modified bandwidth capacity units ensure that the contribution obligation for basic services and special access services is equitable and consistent.
  - » Interstate service providers enjoying the most success in the marketplace *and their customers* provide the most support to universal service.
- Payments are based on prior month's connections.
- Establishes a uniform line item USF recovery charge that includes a safe harbor for uncollectibles and administrative costs.

# SBC BellSouth *Joint Proposal*

## Contribution Estimates



Estimated Interstate Revenues			Run 1			Run 2		
	Assessment - Current Method.	% Assessment	Original Joint Proposal	Capacity Units	% Assessment	Modified Joint Proposal	Capacity Units	% Assessment
6.00	\$ 0.44	7.28%	\$ 0.57	1	9.5%	\$ 0.43	1	7.2%
151.00	\$ 10.99	7.28%	\$ 0.57	1	0.4%	\$ 10.92	25	7.2%
225.00	\$ 16.38	7.28%	\$ 2.86	5	1.3%	\$ 16.28	38	7.2%
2,911.00	\$ 211.94	7.28%	\$ 22.86	40	0.8%	\$ 210.60	485	7.2%
5,686.00	\$ 413.97	7.28%	\$ 22.86	40	0.4%	\$ 411.35	948	7.2%
10,450.00	\$ 760.81	7.28%	\$ 22.86	40	0.2%	\$ 756.00	1,742	7.2%
17,525.00	\$ 1,275.91	7.28%	\$ 22.86	40	0.1%	\$ 1,267.84	2,921	7.2%
24,600.00	\$ 1,791.00	7.28%	\$ 22.86	40	0.1%	\$ 1,779.68	4,100	7.2%
58,500.00	\$ 4,259.09	7.28%	\$ 22.86	40	0.0%	\$ 4,232.16	9,750	7.2%

Estimated Interstate Revenues	Assessment - Current Method.	% Assessment	Run 3		
			Modified Joint Proposal (excl. BB and ISPs)	Capacity Units	% Assessment
6.00	\$ 0.44	7.28%	\$ 0.49	1	8.2%
151.00	\$ 10.99	7.28%	\$ 12.39	25	8.2%
225.00	\$ 16.38	7.28%	\$ 18.46	38	8.2%
2,911.00	\$ 211.94	7.28%	\$ 238.88	485	8.2%
5,686.00	\$ 413.97	7.28%	\$ 466.60	948	8.2%
10,450.00	\$ 760.81	7.28%	\$ 857.54	1,742	8.2%
17,525.00	\$ 1,275.91	7.28%	\$ 1,438.13	2,921	8.2%
24,600.00	\$ 1,791.00	7.28%	\$ 2,018.71	4,100	8.2%
58,500.00	\$ 4,259.09	7.28%	\$ 4,800.59	9,750	8.2%

NOTE: Contribution estimates represent only the access component.

# CoSUS Proposal

## Contribution Estimates

	Estimated Interstate Revenues	Assessment - Current Method.	% Assessment	Run 4			Run 5		
				CoSUS	Capacity Units	% Assessment	Modified CoSUS	Capacity Units	% Assessment
56 Kbps - Residence	6.00	\$ 0.44	7.28%	\$ 1.00	n/a	16.7%	\$ 0.82	1	13.7%
56 Kbps - Centrex	6.00	\$ 0.05	0.81%	\$ 0.33	1/9	5.6%	\$ 0.09	1/9	1.5%
56 Kbps - Business	6.00	\$ 0.44	7.28%	\$ 3.01	1	50.2%	\$ 0.82	1	13.7%
Special Access @ DS0	151.00	\$ 10.99	7.28%	\$ 3.01	1	2.0%	\$ 20.69	25	13.7%
Special Access @ DS1	225.00	\$ 16.38	7.28%	\$ 15.05	5	6.7%	\$ 30.83	38	13.7%
Special Access @ DS3	2,911.00	\$ 211.94	7.28%	\$ 120.39	40	4.1%	\$ 398.81	485	13.7%
OC3	5,686.00	\$ 413.97	7.28%	\$ 120.39	40	2.1%	\$ 778.99	948	13.7%
OC12	10,450.00	\$ 760.81	7.28%	\$ 120.39	40	1.2%	\$ 1,431.66	1,742	13.7%
OC24	17,525.00	\$ 1,275.91	7.28%	\$ 120.39	40	0.7%	\$ 2,400.95	2,921	13.7%
OC48	24,600.00	\$ 1,791.00	7.28%	\$ 120.39	40	0.5%	\$ 3,370.23	4,100	13.7%
OC192	58,500.00	\$ 4,259.09	7.28%	\$ 120.39	40	0.2%	\$ 8,014.57	9,750	13.7%

	Estimated Interstate Revenues	Assessment - Current Method.	% Assessment	Run 6		
				Modified CoSUS (w/o BB & ISPs)	Capacity Units	% Assessment
56 Kbps - Residence	6.00	\$ 0.44	7.28%	\$ 0.84	1	14.1%
56 Kbps - Centrex	6.00	\$ 0.05	0.81%	\$ 0.09	1/9	1.6%
56 Kbps - Business	6.00	\$ 0.44	7.28%	\$ 0.84	1	14.1%
Special Access @ DS0	151.00	\$ 10.99	7.28%	\$ 21.23	25	14.1%
Special Access @ DS1	225.00	\$ 16.38	7.28%	\$ 31.63	38	14.1%
Special Access @ DS3	2,911.00	\$ 211.94	7.28%	\$ 409.20	485	14.1%
OC3	5,686.00	\$ 413.97	7.28%	\$ 799.28	948	14.1%
OC12	10,450.00	\$ 760.81	7.28%	\$ 1,468.95	1,742	14.1%
OC24	17,525.00	\$ 1,275.91	7.28%	\$ 2,463.48	2,921	14.1%
OC48	24,600.00	\$ 1,791.00	7.28%	\$ 3,458.01	4,100	14.1%
OC192	58,500.00	\$ 4,259.09	7.28%	\$ 8,223.31	9,750	14.1%

NOTES: Assessment under current methodology represents only the access component.  
Estimated demand for single line business is included in 56 Kbps - Business category.

# Modeling Results Confirm Benefits of SBC BellSouth *Joint Proposal*



- Enhances the stability of the fund by expanding the contribution base so it is less sensitive to technology and market changes.
- Minimizes the burden imposed on any particular category of provider or type of customer, especially as demand for funding grows.
  - » Maintains approximately the same proportionate contribution obligation for basic and special access services as exists today.
- Obviates the need for a cap on residential and single line business contributions or creation of artificial business/residential contribution categories.
  - » Generates a relatively low contribution obligation of only \$0.43 for a residential local voice line - or \$0.86 for a residential voice line and interstate long distance service.
- Eliminates artificial competitive advantage created by asymmetric contribution obligations and reduces likelihood that customers will migrate to services that do not contribute.



# All Broadband Services Should Contribute

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- Commission should not adopt a policy that only those services that receive universal service support are required to fund the program.
  - » Many services generate universal service contributions even though they do not receive support.
  - » All broadband providers benefit from establishing connections with end users that access the Internet via connections supported by universal service.
- Broadband Internet access services increasingly are used to provide services that are substitutes for traditional telecommunications services.
  - » Exclusion of broadband Internet access services creates competitive distortions.
  - » Migration of traditional services to broadband platforms has significant implications for preservation and advancement of universal service.
- Broadband provider with the end-user relationship should contribute, regardless of facilities ownership.

# Immediate Action Needed on Broadband Services

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- Commission should provide interim relief by declaring that wireline broadband Internet access services are not subject to a contribution obligation.
  - » No justification for assessing contribution on a wireline provider's own integrated broadband Internet access services.
  - » Broadband Internet access service provided to third-party ISP should not be deemed a retail service for universal service purposes.
- Sufficient record in this proceeding (including CoSUS support) for such relief.
- Permanent universal service treatment of all broadband services can be addressed in Title I proceeding.